

Hershey Chocolate Corporation

and

Subsidiary Companies



CONSOLIDATED BALANCE SHEET

December 31, 1937

AND

SUMMARIES OF CONSOLIDATED PROFIT AND LOSS ACCOUNT
AND CONSOLIDATED EARNED SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1937

TOGETHER WITH

AUDITORS' REPORT

HERSHEY CHOCOLATE CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1937

ASSETS

CURRENT ASSETS:

Cash.....	\$ 927,018.28
Accounts receivable.....	\$ 2,004,845.08
Less - Reserve for bad debts and discounts	<u>118,051.74</u>
	1,886,793.34
Raw materials, goods in process and finished goods, quantities and condition determined by company; valued at the lower of cost or market	<u>13,198,072.68</u>
Total current assets.....	<u>\$16,011,884.30</u>

SUPPLY INVENTORIES, PREPAID EXPENSES, ETC.:

Supplies and repair parts	\$ 320,910.09
Salesmen's advances, prepaid insurance, interest, shipping expenses, etc.	<u>135,750.10</u>
	456,660.19

PLANT AND PROPERTY:

Particulars	Cost	Reserves for Depreciation	Net
Land.....	\$ 123,228.39	\$ -	\$ 123,228.39
Buildings and improvements.....	8,228,095.41	3,180,103.45	5,047,991.96
Machinery, equipment and fixtures.....	<u>11,935,634.25</u>	<u>7,027,681.92</u>	<u>4,907,952.33</u>
	<u>\$20,286,958.05</u>	<u>\$10,207,785.37</u>	<u>\$10,079,172.68</u>
Construction in progress			
			76,053.68
			<u>10,155,226.36</u>
			<u>\$26,623,770.85</u>

LIABILITIES

CURRENT LIABILITIES:

Notes and loans payable -	
Bank loans	\$ 7,400,000.00
Affiliated companies	<u>2,319,721.45</u>
	\$ 9,719,721.45
Accounts and wages payable	1,064,603.18
Dividends payable February 15, 1938 on convertible preference and common stock	1,021,999.75
Reserve for Federal and state taxes (subject to review by taxing authorities)	476,763.03
Reserve for market decline in purchase commitments.....	104,577.28
Total current liabilities.....	<u>\$12,387,664.69</u>

CAPITAL STOCK AND SURPLUS:

Convertible preference stock (without par value) -	
Authorized and issued, 350,000 shares, of which 78,649 shares have been converted into common stock	
Issued and outstanding, 271,351 shares (including 17,507 shares held in treasury) at stated value (note)	\$ 271,351.00
Common stock (without par value) -	
Authorized, 1,000,000 shares, of which 271,351 shares are reserved for conversion of convertible preference stock	
Issued and outstanding, 728,649 shares (including 42,900 shares held in treasury) at stated value.....	<u>728,649.00</u>
	\$ 1,000,000.00
Surplus at organization	3,297,212.48
Earned surplus	<u>13,734,341.37</u>
	<u>\$18,031,553.85</u>
Deduct - Hershey Chocolate Corporation treasury stock - at cost	
Convertible preference stock 17,507 shares \$ 1,287,635.19	
Common stock 42,900 shares <u>2,507,812.50</u>	<u>3,795,447.69</u>
	<u>14,236,106.16</u>
	<u>\$26,623,770.85</u>

NOTE: The convertible preference stock is entitled to cumulative dividends at the rate of \$4.00 per share per annum, plus an extra dividend of \$1.00 per share in any year in which dividends are declared (or paid) on the common stock. Upon any distribution of capital assets, the convertible preference stock is entitled to receive \$50.00 per share and accumulated and unpaid dividends (if any) before any distribution to the common stock, and shares equally with the common stock in any distribution of the balance until the convertible preference stock shall have received a total of \$100.00 per share and accumulated and unpaid dividends (if any).

HERSHEY CHOCOLATE CORPORATION AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1937

GROSS PROFIT ON SALES (Exclusive of inventory adjustments shown below) ..	\$ 9,896,769.16
SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSE	<u>5,071,176.89</u>
	<u><u>\$ 4,825,592.27</u></u>

OTHER INCOME--NET:

Profit from scrap and creamery products, discounts and other miscellaneous income	\$ 476,644.19	
Less - Interest charges (\$138,519.12) and loss on retirement of fixed assets (\$49,126.31)	<u>187,645.43</u>	<u>288,998.76</u>
Net profit before inventory adjustments shown below and provision for income taxes	<u><u>\$ 5,114,591.03</u></u>	

DEDUCT - Adjustment to reduce inventory from cost to lower of cost or market at December 31, 1937 (\$3,869,920.68) and provision for market decline in purchase commitments (\$104,577.28)	<u><u>3,974,497.96</u></u>
Net profit before provision for income taxes	<u><u>\$ 1,140,093.07</u></u>

PROVISION FOR INCOME TAXES:

Federal normal income tax	\$ 188,178.26	
Commonwealth of Pennsylvania income tax	<u>19,806.11</u>	<u>207,984.37</u>
Net profit carried to earned surplus	<u><u>\$ 932,108.70</u></u>	

SUMMARY OF CONSOLIDATED EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1937

Earned surplus at December 31, 1936	\$16,140,699.67	
Net profit for the year ended December 31, 1937	<u>932,108.70</u>	
	<u><u>\$17,072,808.37</u></u>	
Dividends:		
Convertible preference stock	\$ 1,269,220.00	
Common stock	<u>2,069,247.00</u>	<u>3,338,467.00</u>
Earned surplus at December 31, 1937	<u><u>\$13,734,341.37</u></u>	

NOTES:

- (1) Costs and expenses include provision for depreciation on plant and equipment in the amount of \$777,846.92.
- (2) Prior to September 21, 1937 the corporation entered into substantial purchase commitments for the future delivery of cocoa beans to be made principally in the months of September, October and December. The corporation entered into a contract dated September 21, 1937, covering the sale, to an associated interest, of the cocoa beans to be delivered in October and December under such purchase commitments. The contract of sale was made on the basis of the quoted market prices of cocoa beans at September 21, 1937 which prices were substantially equivalent to the purchase price of the commitments but were considerably higher than the quoted market prices of cocoa beans at the dates of delivery and at December 31, 1937. Additional purchase commitments were made subsequent to September 21, 1937 and at December 31, 1937 the corporation had purchase commitments for the future delivery of cocoa beans at a total cost of approximately \$1,527,000 against which a reserve of \$104,577.28 was provided to cover the market decline in such commitments at December 31, 1937.

OFFICERS

M. S. Hershey, Chairman of Board of Directors
William F. R. Murrie, President
Ezra F. Hershey, Treasurer
W. S. Crouse, Secretary
O. E. Bordner, Comptroller

DIRECTORS

M. S. Hershey, Hershey, Pa.
William F. R. Murrie, Hershey, Pa.
Ezra F. Hershey, Hershey, Pa.
P. A. Staples, Central Hershey, Cuba
L. W. Majer, Hershey, Pa.

ARTHUR ANDERSEN & CO.

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AUDITORS' REPORT

To Hershey Chocolate Corporation:

We have made an examination of the consolidated balance sheet of the Hershey Chocolate Corporation (a Delaware corporation) and Subsidiary Companies as at December 31, 1937, and of the summaries of consolidated profit and loss and earned surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related summaries of consolidated profit and loss and earned surplus accounts (including the notes thereto) fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1937, and the results of their operations for the year ended that date.



Our Stockholders, as individuals, can greatly advance the Company's interest and their own, by using HERSHY'S Products in their homes and recommending them to others.

